


pensionwise™

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What happens to your pension if your marriage ends?



Your pension
could be your
biggest family asset,
exceeding even
the value
of your home.



Under Ontario's *Family Law Act*, pension benefits accumulated during your marriage are included in the calculation of family property to be shared when you break up. When all your family property is assessed, you and your spouse draw up an agreement on how to share the value equally.

Including your pension in family property does not mean you must split your pension. If your spouse has a pension of

similar value, or other assets that balance out your pension, your pension may not be affected at all. However, if there is an imbalance, you may need to use your pension to equalize family property. If you will be assigning a portion of your pension to your former spouse, here's what you need to know:

DIVIDING PENSION ASSETS

- We will pay a portion of your pension to your former spouse only if directed to

do so under a certified separation agreement or court order issued in Ontario. The document must clearly spell out how to split your pension both before and after your death.

- Your former spouse cannot begin collecting a portion of your pension benefits before you do. We can only divide pension payments when your pension begins or when we pay a benefit if you die or leave the teaching profession.
- Pension law prohibits us from paying

Who can change your pension plan?

your former spouse more than half of the value of the pension accrued during your marriage.

- Income tax will be deducted from both your pension payment and your spouse's pension payment, based on your individual tax rates.
- When you retire, your pension will keep pace with cost of living increases, but inflation adjustments will be applied to your former spouse's pension only if required under the court order or separation agreement.
- We need your written consent to supply personal information to your lawyer, actuary, former spouse or other third party. ■

WHERE TO FIND HELP

OUR STAFF

We cannot provide legal advice or estimate the value of your pension for the division of family property. However, we can calculate the maximum pension we can pay to your former spouse. By law, your former spouse is entitled to no more than 50 per cent of the pension benefits you accumulated during your marriage. We can also review your draft separation agreement to determine whether or not we can comply with its terms.

LAWYERS

The Law Society of Upper Canada offers a lawyer referral service. A directory with lawyers' contact information is also available online at www.lsuc.on.ca.

ACTUARIES

The Canadian Institute of Actuaries maintains a directory to help the public find local actuaries in good standing. Actuaries can help you value your pension. Contact: www.actuaries.ca.

Only 12 per cent of teachers can correctly name the Ontario Teachers' Federation (OTF) and the Ontario government as the bodies responsible for changing your pension plan. Surveys show most teachers think the Teachers' Pension Plan Board is solely or jointly responsible. If you're not sure who does what, read on.

THE PLAN SPONSORS

- The Ontario government and OTF set benefit and contribution levels, and ensure the plan has enough funds to meet all pension benefit obligations to members. Together, they decide how to use surplus funds or deal with a funding shortfall.
- The sponsors each appoint three representatives to a partners' committee to negotiate plan and contribution-rate changes.
- The sponsors each appoint four representatives to the Ontario Teachers' Pension Plan Board of Directors and jointly select a chair. Directors are selected based on their relevant and diverse business experience.

TEACHERS' PENSION PLAN BOARD Board of Directors

- The Board of Directors reviews and approves investment policies, budgets, annual corporate objectives and executive compensation. Day-to-day management of the plan and its assets are delegated to management.
- The board must act in the best financial interests of all plan members. Directors operate independently of both management and the partners.

Management

- The more than 500 employees of the pension plan manage the pension fund, invest the plan's assets, collect contributions, pay pension benefits and provide client services. ■

A six-member partners' committee, with equal representation from the Ontario government and Ontario Teachers' Federation (OTF), discusses ways to deal with your pension plan's funding shortfall. Committee members include, from left to right: George Saranchuk, First Vice-President, OTF; Yvan Roy, Past President, OTF; Jim McQueen, President, OTF; Bruce Macnaughton, Director, Ministry of Finance; Ross Peebles, pensioner and former Deputy Minister & Associate Secretary of Cabinet, Centre for Leadership. Absent: Peter Gooch, Director, Ministry of Education.



How we manage investment risk

Your pension plan is known in industry circles as a good risk manager for its ability to get excellent long-term investment returns while prudently managing risk.

But what does risk management really mean and how does it affect your pension fund?



"Our ability to assume risk is driven by the expected volatility in our assets and the cost of future pension benefits," said Morgan McCague, Senior Vice-President, Asset Mix and Risk.

"We assess the long-term risk and return trade-offs of allocating different proportions of the fund to different classes of assets, such as equities, real estate and bonds."

This assessment works much like personal computer programs that can help you decide where to invest, based on future income needs, current assets and expenses.

Over the past decade, faster computers and better risk management software have made it possible to take into account far more information than was possible before, particularly in measuring short-term risk, and to monitor risk more frequently.

For example, we can quickly calculate the risks of buying and selling investments at any point because our computers have tracked the daily

movements of more than 2,000 stocks for 15 years.

FOREIGN CURRENCY RISK

When we invest outside Canada, returns are subject to the risk of currency fluctuations. This volatility impacts the value of any gains or losses in foreign investments.

To reduce the volatility of returns due to foreign currency fluctuations, we

YOUR PLAN NAMED BEST RISK MANAGER

Your pension plan has won an award for managing investment risk better than any other pension plan in the world.

The prestigious industry award from *Risk* magazine recognizes your fund's achievements with derivatives in "highly challenging and competitive markets." A derivative is a financial product that derives its value from the price of another asset.

"The Ontario Teachers' Pension Plan has a well-earned reputation for being at the vanguard of pension fund risk management," the magazine said. ■

MORGAN MCCAGUE, Senior Vice-President, Asset Mix and Risk

hedge our equity exposure to currencies such as the Japanese yen, Euro and British pound. We also try to make money by buying and selling currencies at the right time. This is similar to the timing decisions you make when buying foreign currencies to spend during a vacation abroad.

LIQUIDITY RISK

Having enough cash on hand to pay \$290 million in pensions every month is paramount to our business. We also need cash to close deals like the recent \$610 million financing of Parmalat Canada.

To manage short-term liquidity needs, the fund maintains at least one per cent of its assets in unencumbered Canadian treasury bills.

You, too, probably keep some of your assets liquid to meet unforeseen emergencies and expenses.

CREDIT RISK

When we lend money, we run the risk that the borrower won't pay us back. A potential default of payments is known as credit risk. The plan's biggest exposure to credit risk is with the federal and Ontario governments because close to one-fifth of the plan's assets are invested in government bonds or debentures. Of course, the risk of the government defaulting on its payments is small.

Corporate risk can also be managed by investing only in companies with good credit risk ratings and growth prospects.

INTEREST RATE RISK

Fluctuations in interest rates affect the plan's assets and liabilities. For example, a one per cent drop in real (after inflation) interest rates can increase the future cost of pensions by \$19 billion.

Assets are also affected by interest rates in many different ways. For example, our real estate portfolio provided the biggest above-market returns in 2004, primarily as a result of low interest rates. ■

Investment performance is tops

Our investment team scored top marks again in 2004.

Our annual rate of return was 14.7 per cent, four per cent more than the composite benchmark, the yardstick that measures our overall performance against the markets in which we invest.

We also continue to deliver good long-term results. Our assets grew to \$84.3 billion in 2004 from \$18 billion in 1990 when we began to invest in assets other than Ontario debentures.

More information on our investment performance is available in the *Report to Members*, which you should have received in late March. The report is posted in the publications section of our website at www.otpp.com



Fund buys commercial laundry firm

The coins deposited at your local laundromat may find their way into your wallet. Teachers' Private Capital, the private equity arm of your pension plan, has purchased Wisconsin-based Alliance Laundry Systems for approximately \$500 million. Alliance, the leading North American maker of commercial laundry products, also manufactures home appliances sold in Ontario under the Huebsch brand.



Fund invests in life sciences

Teachers' Private Capital and Bioscience Managers Ltd. have jointly established a new fund to invest in mid-stage Canadian life science companies. The new BML International Maple Leaf

Fund invests in companies engaged in costly clinical development programs required to bring scientifically proven products to market.

The new fund fits your pension plan's

strategy of putting a larger portion of its assets in investments other than bonds and publicly traded stocks.

Fund jointly buys 10 power plants for \$2.2 billion

Your pension plan, in partnership with AIG Highstar, is buying InterGen from Shell and the Bechtel Group for \$2.2 billion.

The InterGen portfolio includes 10 powers plants in the U.K., the Netherlands, Mexico, Philippines, China and Australia. The deal is expected to close in mid-2005.

"The InterGen power facilities are new and represent the most modern, efficient and cleanest thermal facilities in the countries where they operate," said Jim Leech, Senior Vice-President, Teachers' Private Capital.

"Compared with older technologies, InterGen's facilities burn less fuel for every megawatt of power generated with significantly lower emissions.

"The investment should produce stable and long-term cash flows that are well suited to our growing infrastructure portfolio," Jim said. ■

How to recognize an Internet thief

Fraud artists may try to hook you on their next "phishing" expedition.



Phishing, the name coined for the latest Internet scam, is growing at an alarming rate because of the ease of coercing information from people who believe they are dealing with a trusted organization.

HERE'S HOW ONE SCAM WORKS

1. You receive an e-mail from a thief, impersonating a legitimate organization. The thief asks you to provide or verify personal information. You recognize the e-mail sender's address and have no reason to suspect fraud. The thief may ask you to link to his fake website to provide the information.
2. The fake website looks exactly like the real one; even an experienced eye can't tell the difference.
3. You provide or verify personal information.
4. Armed with your personal information, the thief can authorize purchases, withdraw or redirect funds, change your beneficiary designation and commit other crimes.

"The security practices and systems we use to protect our members' personal information are among the best in the world," said Rosemarie McClean, Senior Vice-President, Member Services.

"But we can only do so much to protect you. Ultimately, you have to protect yourself by adopting safe online practices."

TEN WAYS TO PROTECT YOURSELF

1. Select unique passwords that are difficult to guess. Try a combination of letters and numbers.
2. Keep your passwords confidential and change them often.
3. Never send or provide confidential information in an e-mail.
4. Don't click on links in an e-mail to get

to a secure website. Instead, type the address into your browser. (A secure website requires a password.)

5. Install anti-virus software, a firewall, and anti-spyware on your computer. Keep them and your operating system up to date.
6. If in doubt, check it out. Call us if you receive a suspicious e-mail, reportedly from the pension plan.
7. Don't open an unexpected e-mail attachment, even if from a trusted source.
8. Be wary of any e-mail request to verify personal information, especially if the request is urgent.
9. Recognize that the sender's name in an e-mail can be forged.
10. Stay informed about new ways to protect yourself from the latest scams.

FIVE WAYS WE PROTECT YOU

1. We use strict registration and sign-in protocols so only you can access your personal information on iAccess.
2. We are moving toward the use of only plain text e-mail messages because other forms are more susceptible to viruses.
3. We are phasing out the use of e-mail attachments because they are prone to viruses.
4. We do not transmit or ask you to send confidential information via e-mail.
5. We don't send e-mails asking you to link directly to a website to provide or verify personal information. You can update your personal information any time on iAccess. ■

Register now for online statement

Now is the time to think about switching to an online pension statement.

The interactive statement contains all the information found in the printed summary you receive every October, plus other features, including:

- a tool to calculate your own pension estimates;
- personal messages alerting you to missing information;
- an opportunity to update your personal pension profile; and
- an audio tour of the statement highlights.

Unlike your paper statement, which is based on information in effect at the time of printing, the online statement is always current and easy to find.

To view your statement, you must be registered for iAccess, our secure member website. To register, call 416-226-2700 or 1-800-668-0105, or complete a registration form on our website at www.otpp.com. ■





Same-sex marriages to be recognized

Your pension plan will recognize same-sex marriages when a new definition of spouse is adopted under Ontario's *Pension Benefits Act*.

Same-sex couples now qualify for survivor benefits under the same rules that apply to common-law spouses. Your plan defines a common-law spouse as someone who has lived with a member in a conjugal relationship for at least three continuous years (or less if they are the natural or adoptive parents of a child).

The change would affect same-sex couples who marry before meeting the common-law definition. ■

School gets free computer after teacher becomes 50,000th user

Teachers at an elementary school in Scarborough have one more reason to log on to iAccess – a new computer.



A teacher at the school won an opportunity to donate the computer after becoming the 50,000th member to register for iAccess, our secure member website. The computer was shipped to St. Maria Goretti Catholic School after the teacher hit the magic number earlier this year. ■

You Asked Us...



Q: Will I lose pension credit if we go on strike?

A: Your pension credit is not affected during a legal strike or lockout. Your employer reports a loss of salary, but not your absence. This means you do not lose credit during a legal strike. If a strike occurs in one of your best-five years of salary, your federation can make up the loss of salary on your behalf by paying pension contributions for the period of absence.

Q: I just had another child. Do I need to report this to you?

A: You do not need to notify us of the birth of a child. Survivor pensions are automatically paid to dependent children if you don't have a spouse when you die. You should, however, consider updating your beneficiary designation to include your new child. This is important because there is often a pre-retirement death benefit to pay out, in addition to the survivor pension for dependent children. By designating your children as your beneficiaries, you ensure they will directly receive as much of your death benefit as possible if you die before retirement without a spouse. A beneficiary designation form and fact sheet can be found in the publications section of our website at www.otpp.com.

Q: Will you recalculate my pension if I get a retroactive salary increase after I retire this June?

A: Yes, we will recalculate your pension if the retroactive settlement increases the best five-year average salary on which your pension is based. There is no need to contact us for an adjust-

ment. It happens automatically about six months after your former school board notifies us of the retroactive settlement. Long lead times are required because we need to adjust thousands of pension records.

In addition to higher monthly pensions, affected members receive lump-sum payments representing the difference between their old and new pension amounts, plus interest.

Monthly pension increases stemming from retroactive salary adjustments are usually small. For example, a two per cent salary increase, retroactive for one year, translates into an extra \$14 per month for a typical \$40,000 annual starting pension.

Q: Do I need to resign to collect a pension?

A: You cannot begin to collect a pension while employed in the education field. To start your pension, you must resign from your teaching job and sever your relationship with your employer. A resignation is considered valid only if:

- your Board of Education confirms acceptance of your resignation without condition;
- no arrangement has been made to return to work in education before the latter of your resignation date or our receipt of your retirement application; and
- you have either received or arrangements have been made to pay any applicable gratuity.

For more information, read our member fact sheet, *Teaching after Retirement*, or view an audio-visual presentation on iAccess TV. ■

FAST FACTS

5,200

teachers retired last year

97,000

people now collect
a Teachers' pension

28%

of pensioners are
under age 60

42%

of teachers retire at their
85 factor

71%

of retirees collect
an unreduced pension

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We appreciate your comments about anything you read in *Pensionwise*. Please contact Debra Hanna at (416) 730-5351 or 1-877-812-7989, or e-mail: dhanna@otpp.com

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This newsletter does not create any right to benefits. Your entitlements and those of your survivors are and will be governed by the language of the pension plan text. The information contained in this newsletter is not intended to be relied upon in relation to any particular circumstance.

Ce bulletin est disponible également en français.



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PENSION PLAN**

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Funding shortfall: Q & A's

Q: Why is the funding shortfall growing when you made more than \$10 billion last year?

A: Despite excellent investment returns, future pension costs are growing faster than plan assets. In 2004 alone, the cost of future pensions increased by \$18 billion. The rapid spike is due largely to low interest rates. For example, a one per cent drop in real (after inflation) interest rates can result in a \$19 billion increase in the cost of future pensions. Based on a real rate of return of two per cent, we need to set aside about \$860,000 to pay each typical unreduced retirement pension today, \$270,000 more than 10 years ago when rates were three per cent higher.

Q: How are you going to fix the shortfall?

A: The Ontario government and the Ontario Teachers' Federation (OTF) will decide how to deal with the funding shortfall. When they do, they will communicate the impact to members promptly. The OTF has already told teachers a contribution rate increase in 2007 is unavoidable. (Our job is to get good investment returns, pay pensions, and provide quality service.)



Q: Will the 85 factor be there when I retire?

A: We can't speculate on what decisions the OTF and Ontario government might make about future benefit levels. However, it may be reassuring to know that benefits earned so far by teachers are protected under Ontario's *Pension Benefits Act*.

Q: Will the plan be all used up by the time I retire in 2021?

A: Your future pension is secure. Pension plans must, by law, be fully funded over the long term. Being fully funded means the plan has enough assets to pay pensions not only today, but 70 years from now. By addressing the funding shortfall, the OTF and Ontario government will ensure the plan remains financially healthy well into the future. ■

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